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ANNUAL REPORT
to
STOCKHOLDERS

WEINBERGER DRUG STORES, INC.
AND SUBSIDIARY
CLEVELAND, OHIO

FOR THE FISCAL YEAR ENDED
JUNE THE THIRTIETH
NINETEEN HUNDRED
THIRTY-EIGHT

BRB
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ACCOUNTANTS' CERTIFICATE

August 25, 1938

Weinberger Drug Stores, Inc.,
Cleveland, Ohio.

We have made an examination of the consolidated balance sheet of WEINBERGER DRUG STORES, INC. and subsidiary SUPERIOR LABORATORIES, INC. as at June 30, 1938, and of the consolidated statements of profit and loss and surplus for the year ended at that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Merchandise inventories are based principally upon physical counts taken and priced by employees of the companies under the direction of the management during June and July 1938, and adjusted for intervening transactions to June 30, 1938. We tested inventory quantities at the warehouse, laboratory and three of the stores, and our tests as to computations and pricing indicated that the latter represented lower of cost or market.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of the Company and its subsidiary at June 30, 1938, and the consolidated results from operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

TO THE SHAREHOLDERS:

On behalf of the Board of Directors, I present herewith the corporation's annual report for the fiscal year ended June 30, 1938, based on the audit of our books by Messrs. Ernst & Ernst.

Net profit for the year, after deducting all charges, including depreciation and provision for all Federal and other taxes, was equivalent to $1.51 per share, as compared to $3.03 per share for the fiscal year 1937. Thirty-eight stores are now operated.

In view of the conditions of unemployment, and other unfavorable factors that prevailed during the year, the management feels that the earnings per share evince a healthy condition of the corporation's business, and it is confident that with a return of better general business conditions, its shareholders may look forward to improved earnings.

Very truly yours,
ADOLPH WEINBERGER,
President.

CONSOLIDATED BALANCE SHEET

WEINBERGER DRUG STORES, INC. AND SUBSIDIARY

June 30, 1938

ASSETS

CURRENT ASSETS			
Cash		$ 96,681.15	
Trade accounts receivable		28,736.75	
Tax stamps-state		7,860.09	
Inventories—at lower of cost or market		1,002,759.83	$1,136,037.82
OTHER ASSETS			
Cash surrender value of life insurance (Note A)		$ 22,816.64	
Miscellaneous accounts receivable, sundry advances, etc.		7,332.68	
Deposits—rent, etc.		7,213.48	
Claims against closed banks, etc.	$ 4,556.86		
Less reserve	3,324.42	1,232.44	38,595.24
FIXED ASSETS			
Furniture and fixtures, etc.—at cost	$431,414.68		
Leasehold improvements—at cost	143,463.15	$574,877.83	
Less reserves for depreciation and amortization		203,858.71	371,019.12
PATENTS AND TRADE-MARKS (nominal amount)			1.00
DEFERRED CHARGES			
Prepaid insurance, deferred taxes, supplies, etc.			37,847.53
			$1,583,500.71

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES			
Notes payable:			
To bank (Note A)	$225,000.00		
To vendor	530.50	$225,530.50	
Accounts payable		193,294.52	
Salaries, wages and additional compensation		23,863.07	
Accrued taxes, rent and interest		30,102.10	
Provision for federal taxes on income—estimated		23,800.00	$ 496,595.19
RESERVE			
For general contingencies			12,000.00
CAPITAL STOCK AND SURPLUS			
Capital stock (without par value):			
Authorized 100,000 shares			
Outstanding 80,000 shares—stated capital		$589,670.00	
Surplus:			
Capital surplus	$105,409.39		
Earned surplus	379,826.13	485,235.52	1,074,905.52
			$1,583,500.71

Note A—On August 17, 1938, the Company obtained a bank loan in the amount of $300,000.00, of which the amount of $225,000.00 was used to repay indebtedness to the bank. The loan was evidenced by an installment promissory note payable in monthly installments of $5,000.00 each commencing January 2, 1939, with balance due five years after date of note. In connection with said loan, the Company deposited as collateral security for the payment thereof insurance policies on the lives of its president and vice president in the aggregate amounts of $128,449.00 and $62,500.00 respectively.

Note B—The management of the Company has no knowledge of any contingent liabilities other than pending suits and claims for personal injury and additional compensation, as to which, considering the nature of such cases and the amounts involved, the proceedings will not, in the opinion of the management of the Company, result in any losses of a material amount to the Company and its subsidiary.

SUMMARY OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

WEINBERGER DRUG STORES, INC. AND SUBSIDIARY

Year ended June 30, 1938

SUMMARY OF CONSOLIDATED PROFIT AND LOSS

Gross profit			$1,633,701.02
Selling, general and administrative expenses			1,473,211.95
OPERATING PROFIT			$ 160,489.07
Other income:			
Reserve for doubtful accounts, provided during prior years, returned to income		$ 1,621.97	
Profit on disposal of capital assets—net		956.55	
Sundry income		1,533.21	4,111.73
			$ 164,600.80
Other deductions:			
Provision for contingencies		$ 12,000.00	
Interest expense		4,573.12	
Expenses in connection with leases on abandoned locations—net		4,238.40	
Life insurance expense—net		1,151.65	21,963.17
PROFIT BEFORE FEDERAL TAXES ON INCOME			$ 142,637.63
Provision for federal taxes on income—estimated:			
Normal tax	$ 22,900.00		
Surtax on undistributed profits	900.00	$ 23,800.00	
Less overprovision and refunds—prior years		1,983.35	21,816.65
NET PROFIT			$ 120,820.98

Note—Provisions for depreciation and amortization, in the aggregate amount of $53,476.60, are included in the above expenses.

CONSOLIDATED SURPLUS

CAPITAL SURPLUS			
Balance at July 1, 1937, and June 30, 1938			$ 105,409.39
EARNED SURPLUS			
Balance at July 1, 1937		$387,005.15	
Net profit for year ended June 30, 1938		120,820.98	
		$507,826.13	
Cash dividends:			
$.50 a share paid Oct. 1, 1937	$ 40,000.00		
.50 a share paid Jan. 3, 1938	40,000.00		
.50 a share paid Mar. 28, 1938	40,000.00		
.10 a share paid June 27, 1938	8,000.00	128,000.00	
BALANCE—JUNE 30, 1938			379,826.13
TOTAL SURPLUS—JUNE 30, 1938			$ 485,235.52